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UNCLAS SECTION 01 OF 02 GUANGZHOU 030247

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E.O. 12958: N/A

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SUBJECT: CIFIT 2006: Taiwan Tourism, Arab Oil, and U.S. Investment

REFERENCE: Beijing 19645

(U) This message is sensitive but unclassified. Please handle accordingly.

1. (SBU) Summary: U.S. attendees at the annual China International Fair for Investment and Trade (CIFIT) in Xiamen left feeling pretty good about their reception while Taiwan travel agents -- who turned out in large numbers -- had to feel somewhat disappointed about the lack of movement in real cross-strait tourism opportunities. CIFIT also included a seminar on China-Arab cooperation in the petrochemical industry, as Arab representatives and Chinese officials touted their respective investment climates and cited successful joint projects. End Summary.

The Heavyweights Speak: Investment, WTO, and Energy Efficiency

2. (U) CIFIT's keynote International Investment Forum featured speeches by Vice Premier Wu Yi, WTO Director-General Pascal Lamy, UN Conference on Trade and Development (UNCTAD) Secretary-General Supachai Panitchipakdi, and Toyota Honorary President Shoichiro Toyoda. Madame Wu (reftel) said China would continue to encourage two-way trade and investment but place more emphasis -- in part through "timely changes in "the Catalogue Guiding Foreign Investment" -- on using foreign investment to upgrade its manufacturing industry, high-tech manufacturing, services, research and development, logistics, and modern agriculture. She also singled out intellectual property protection as a key area of improvement. WTO's Lamy thanked Madame Wu and Premier Wen Jiabao for their stated commitment to the Doha round of WTO negotiations and encouraged China to embark on a more sustainable path of economic development. UNCTAD's Panitchipakdi took note of the importance of China's growth to the developing world, noting that China's outward FDI to developing countries had a record 13 percent increase in 2005. Toyota's Toyoda highlighted the role that Japanese companies can play in improving energy efficiency in China.

U.S. Participation and Discussions with Wu Yi

3. (SBU) U.S. company representatives told Econoff that they see CIFIT as an opportunity to meet high-level Chinese officials, learn of available projects, and initiate deals. Because Vice Premier Wu Yi typically attends CIFIT, all of the participating provinces send their vice governors to attend. According to Harley Seyedin, President of AmCham - South China, when a vice governor expresses interest in a project during a meeting, working level officials often follow through. In addition, the various provinces compete to announce the greatest number of deals signed during CIFIT. AmCham-South China's delegation of 89 people at the fair this year included representatives from Microsoft, Air Products, and AIG, and met with vice governors from six provinces. Microsoft opened a

research and development center in Xiamen during the fair, which at this point is a placeholder for future expansion.

14. (SBU) A highlight of CIFIT for approximately 20 U.S. companies was a two-hour meeting with Vice Premier Wu Yi, during which they aired their concerns on a range of issues. According to Jeff Bernstein, President of AmCham Shanghai, company representatives made the following points during the meeting:

- counterfeiting organizations are becoming more violent; computer servers are being sold with counterfeit software installed;
- China's merger and acquisition regulations are overly burdensome;
- China is not positioned to capture the call-center market because of a lack of English skills and a five percent business tax that applies to all service exports; and
- more government leadership is needed to move China's industrial sector toward cleaner, more sustainable energy usage.

Cross-Strait Tourism

15. (U) Following visits by the chairpersons of Taiwan's Nationalist Party and People First Party to mainland China in 2005, CIFIT organizers last year inaugurated a cross-strait tourism exposition to coincide with the fair. This year the cross-strait expo was again held concurrently with CIFIT, with a prominent exhibition area featuring Taiwanese travel agencies. A reported 3,967 Taiwanese exhibitors and attendants visited CIFIT this year, ranking first among visitors from outside the mainland. Nevertheless, the level of activity around the Taiwan exhibition area was less pronounced than last year, perhaps owing to continuing restrictions on travel from the mainland to Taiwan. In remarks during a seminar on cross-strait economic cooperation, the deputy director of the PRC's National Tourism Administration said he hopes Taiwan will authorize

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negotiations between non-government tourist agencies on both sides as soon as possible. A Taiwanese exhibitor told Econoff that he was confident Taiwan would announce new measures by the end of 2006.

16. (SBU) The owner of one of Taiwan's travel agencies at the expo said he came to CIFIT to advertise and make personal connections, all in preparation for a loosening in Taiwan's travel restrictions. He said Taiwan travel agencies are fiercely competitive in luring mainland customers at this early stage and offer package deals at below cost. He also mentioned that he did not see an increase in mainland customers despite his attendance at CIFIT last year.

China-Arab Cooperation on Oil and Gas

17. (U) CIFIT also hosts an annual China-Arab Business Cooperation Forum, which this year focused on the petrochemical industry. In remarks to the forum, MOFCOM Vice Minister Chen Jian cited "never better" China-Arab cooperation in the petrochemical industry, pointing to a 19 percent increase in Chinese investment in Arab countries in 2005, mostly in the energy sector. He said approximately 50 percent of China's petrochemical imports are from Arab states. Chen also said a trade agreement between China and Persian Gulf countries, which is currently under negotiation, has great potential for petrochemical companies on both sides.

18. (U) China National Petroleum Corp. (CNPC) Assistant President Wang Dongjin said CNPC currently has investment in 17 Arabic countries, including seven projects in Sudan. He touted CNPC's corporate social responsibility, which includes sponsoring schools and clinics in Sudan. Sinopec Director of Development Planning Lei Dianwu said his company offers expertise in engineering and maintenance, and listed key refinery projects in Fujian, Qingdao, Guangdong, and Tianjin that are open to foreign investment.

19. (U) For their part, Arab leaders expressed appreciation for their economic relationship with China.
-- Sudan Minister of Energy and Mining Awad Ahmed Al-Jaz (who also spoke at the International Investment Forum) said oil is a top priority in bilateral trade. He praised the work of CNPC in Sudan,

citing an oil pipeline and a refinery in Khartoum that were completed in record time. He also noted, somewhat pointedly, that CNPC "does not interfere with the internal affairs of Sudan."

-- Bahrain's Ambassador to China Karim Ebrahim Al-Shakar said that China's manufacturing-based economy will rely on Arab oil for the foreseeable future, and estimated that China-Arab trade will triple over the next five years. He also expressed hope that China would increase market access in the petrochemical industry to Arab companies in the near future.

-- Maen Nsour, Chief Project Engineer of Algeria Petroleum and Natural Gas Corp., said Algeria has embarked on a large-scale liberalization project in its petrochemical industry and invited more participation from Chinese companies in downstream projects.

-- Investment promotion representatives from Jordan and Tunisia also presented at the session.

Comment

10. (SBU) CIFIT was better organized this year than last, when information about scheduling and seminars was not available until the last minute. In contrast to other large trade fairs in South China, such as the Canton Trade Fair, products are not on display in the exhibition area. Instead, the booths advertise the benefits of various countries, provinces, and cities as investment locations. Attendees come to CIFIT to strengthen relationships with Chinese government officials and network during seminars. While this year's event was a success for Amcham reps, it seems to have resembled a show without substance for Taiwan's tourist agencies.

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